

The American Observer

A free, virtuous and enlightened people must know well the great principles and causes on which their happiness depends. — James Monroe

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NOVEMBER 18, 1935

Public Utility Act Pronounced Invalid

**Baltimore Court Rules Holding
Company Act Unconstitutional
"in Its Entirety"**

SUPREME COURT TO DECIDE

**Must Determine Whether Congress Ex-
ceeded Legal Authority in
Passing Act**

Perhaps the most bitter fight during the last session of Congress was waged over the so-called holding-company bill, which was finally enacted into law just before Congress adjourned. For weeks the measure was fiercely debated. The Senate passed the bill in one form and the House of Representatives passed it in another form, and for a long time it appeared that it would be impossible to effect a compromise between the two bills. The President brought to bear all the pressure he could muster in favor of a strong bill. Had it not been for the fact that in the midst of the debate an investigation was held of the lobbying activities of opponents of the measure, it is doubtful that a bill in any way satisfactory to the administration would have been passed in the end. But during the late summer, it was revealed that holding companies had engaged in all sorts of unsavory practices in order to influence votes in Congress. Huge sums of money were spent by the industry to defeat the bill; fake telegrams were sent to members of Congress requesting them to vote against it. When all this was brought to light, the public became aroused, and it is possible that many members of Congress changed their votes as a result of the lobbying investigation.

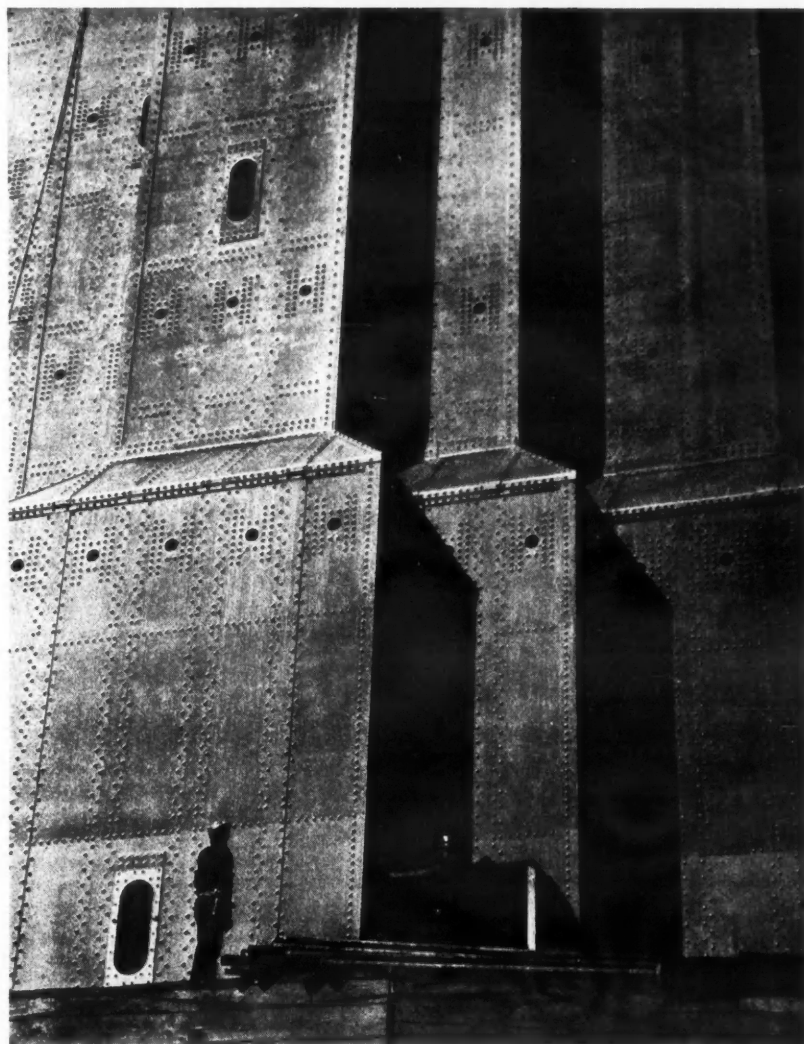
Court Ruling

However all that may be, Congress passed a bill regulating holding companies in the public utility field, which was substantially what the President wanted. It did not, it is true, pass the famous "death-sentence" provision in its original form, and thus provide for the elimination of holding companies in seven years. But it did adopt a measure which, if rigidly applied, gives the government, through the Securities and Exchange Commission, the power to abolish a great number of holding companies and to accomplish practically the same results as would have followed from the enactment of the original "death-sentence."

Important as this victory was for the reform program of the Roosevelt administration, it is apparent that it was not final, for the federal district court at Baltimore on November 7 handed down a decision in which it held the public utility act unconstitutional "in its entirety." The judge who handed down the decision, William C. Coleman, an appointee of President Coolidge, declared that Congress had exceeded its authority in passing the measure, and branded the act "grossly arbitrary, unreasonable, and capricious." He implied that certain parts of the law might be constitutional, but that the invalid provisions "are so multifarious and so intimately and repeatedly interwoven through the act as to render them incapable of separation from such parts of the act, if any, as otherwise might be valid."

The ruling of the Baltimore court does not mean, of course, that the act is definitely

(Concluded on page 8)



AGE OF STEEL

From a photograph by James Doolittle in "U. S. Camera—1935" (see page 6).

Leaders and Followers

A few weeks ago there was an editorial in THE AMERICAN OBSERVER calling upon the young men and women of the nation to become leaders and to use their leadership in the interest of the public welfare. The point was made that leadership is needed and that those capable of exercising it owe a social obligation to live up to their possibilities and to recognize their responsibilities. A reader of the paper writes to us suggesting that the advice we gave applies only to a few, that most people are incapable of leadership and cannot aspire to it; and that the greater need of the hour is for intelligent and thoughtful followers.

There is, indeed, need for followers of the right kind. It is desirable that an increasing number of citizens train themselves to select their leaders more wisely. Greater care should be given to the selection of officials and the ordinary man or woman should make an effort to discriminate among those who try to influence opinion, following the lead of those who are honest and reliable. It is true that there should be training for followers as well as leaders, for without thought and civic training one is unable to distinguish between sound and foolish counsel; between statesmanship and demagoguery. It is also true that the average individual has not the talent which would justify his hopes of attaining power and world-wide or nation-wide influence. There should, therefore, be attention in the schools and elsewhere, to the training of citizens to judge leaders and to follow wisely.

At the same time the obligation to lead still stands and it rests upon every normal individual. One need not be a mental giant in order to exert a great influence in his town or county for good government. He need not have unusual powers in order to become better informed than any of his neighbors and friends on some problem. Each person may become a leader along some line and a follower along others. Each normal boy or girl can hopefully expect to become a community leader, for the qualities that make for community leadership are common sense, industry, honesty, friendliness, and a disposition to think problems through carefully, plus a training in the best means of acquiring information. These qualities may be attained by all except a relatively small number who are inadequately endowed mentally. They may be attained by average young men and women, provided these young people are above the average in determination and public spirit. So, while agreeing as to the necessity for well-equipped followers, we repeat our call for sound and competent leadership.

Laval Faces Crisis as Deputies Convene

**Domestic Policies Opposed Radi-
cal Parties Who Will Try to
Overthrow Him**

CIVIL STRIFE IS POSSIBILITY

**Right and Left Organizations May
Clash in Struggle to Gain
Power Over Nation**

The French Chamber of Deputies is scheduled to convene sometime this month. Whenever this tempestuous branch of the French parliament opens a session it is the signal for new explosions in the nation's politics. Often enough it means the ousting of the cabinet in power and a frantic scramble to obtain the necessary unified support for a new one; no easy task, for the Chamber is not divided among several large political parties, but is split into nearly a score of blocs, none of which is ever powerful enough to dominate the others. Sometimes the strain and tension among the political groups reach such a point that only with the greatest difficulty can enough votes be mustered to support a new coalition cabinet.

Cabinet Changes

When this happens, we see three, four, five cabinets formed in rapid succession, each composed of members drawn from varying and perhaps conflicting political groups. Finally, after days of weary search, after much anxious shuffling and reshuffling of blocs, a cabinet is pieced together which succeeds in wheedling from the Chamber the vote of confidence needed to keep it in power. But since this vote of confidence is nearly always based on a temporary and uncertain alignment of political groups, the slightest tremor in the political scene may doom it to death. How usual an occurrence of this kind is may be judged from the fact that the present Laval cabinet is the ninety-ninth to have been formed in the 60-odd years of the Third Republic's life.

Thus the questions foremost in the mind of every Frenchman this month are: Will Premier Pierre Laval be able to retain his grip when the Chamber convenes? Will the political groups which united to support him in June continue their coöperation? If he is dismissed, who will replace him?

Ordinarily these questions would not seriously bother the French people who are used to seeing cabinets tumble. Fundamental changes of policy are not usually involved when the reins of government are passed from one set of hands to another. But it happens that at this particular time the burdens of economic crisis are weighing especially heavily upon France. Unlike other countries she is not skimming along the rising tide of recovery, but rather is still in the lowest depths of depression. Unemployment is increasing and foreign trade continues to decline. Government finances are in difficult straits. Revenues drop off steadily and nullify each new attempt to balance the budget. Bankruptcy has taken a heavy toll among business concerns and the farmers must cope with disastrously low prices for their products.

The persistent economic headache has naturally had its political effects. The people are wearying of the repeated failures of moderate cabinets to solve the nation's



A PARADE OF THE CROIX DE FEU

problems. Their allegiance is drifting rapidly toward new groupings which promise more positive action. One of these is definitely conservative—fascist, its opponents claim—and the other is a radical combination composed of factions ranging from liberals to Communists. They are organized into the so-called Popular Front, and their first aim is to defeat fascism. Afterward they plan to wrest the control of government away from big business and to inaugurate drastic economic reforms.

France is becoming more and more divided into two hostile camps as the clash between these two rival forces deepens. People who have favored the moderate cabinets of past years are becoming disgusted and are anxious to see a drastic change in government leadership. The constant middle-of-the-roads are being driven Rightward and Leftward. The lines are being drawn so sharply, and passions are mounting to such a peak, that many fear France will have to pass through a period of civil war before one side or the other can attain power. Already there have been scattered disturbances. The first and most famous was on February 6, 1934, when the Place de la Concorde, in front of the Chamber of Deputies in Paris, was the scene of bloody conflict between civilians and police. The radicals charge that it was an attempt on the part of fascist groups to seize power. It was this incident which caused the Left forces to unite under the Popular Front to oppose fascism. Since then there have been other riotings, more minor in nature, and there have been numerous demonstrations and parades as each side, Right and Left, has sought to show the other its strength.

The Croix de Feu

The spearhead of the Right is the famous Croix de Feu, or Cross of Fire. It is an organization of war veterans numbering about 300,000 members. It is headed by François de la Rocque, a retired lieutenant-colonel in the French army. Emil Lengyel, writing in *The Nation*, describes him as follows:

De la Rocque is a military man from top to toe, with little of that political acumen that Mussolini displayed on reaching power. He saw nine years of military service in the African possessions of France. Wounded in an encounter with native forces during the World War, he asked to be sent to the western front instead of to the hospital. After the war he was assigned to the staff of Marshal Foch, was sent on a military mission to Poland, fought Abd-el-Krim in Morocco, and was transferred again to the staff of Foch. About seven years ago he resigned from service.

The program of de la Rocque consists of such generalities as "order, work, family, fatherland." Asked about his plans, he said to an interviewer: "Programs are deceptive. . . . There are too many ready-made ideas and doctrines in this world." In his speech at Mouvais, near Tourcoing, on July 7 he came nearer to being specific: "Our first task is to create order, to take full command, and cast out all the disorderly elements. . . . In order to do this we'll send this rotten parliament on a long vacation."

This is the man who threatens to establish dictatorship in France. His organization of war veterans may be likened in many respects to Hitler's Storm Troops and to Mussolini's Blackshirts. Their de-

votion to him is fanatical, although he does not have the personal magnetism of a Mussolini or a Hitler. He does, however, know how to organize men.

Colonel de la Rocque is reported to be receiving financial support from such men as François de Wendel, head of the French steel and armament trust, and Baron Edouard de Rothschild, banker and railway magnate. These names will assume more significance a little later in this article.

In addition to the Croix de Feu there are several other fascist or near-fascist organizations. There are societies of young men and societies of older civilians, all of them strictly conservative in nature. None, however, has the following and prestige of the Croix de Feu.

Popular Front

As already stated, the menace of de la Rocque prompted the formation of the Popular Front or People's Front, as it is sometimes called. This movement has developed from a united front of Socialists and Communists, established after the February 6 riots for the purpose of fighting fascism. The composition of the united front has been broadened until it now includes radicals and radically-minded liberals of every shade of opinion. Especially important is the fact that it includes many Radical-Socialists, who have by far the largest party in the Chamber of Deputies. It is the Radical-Socialists who are the main strength of practically all French cabinets, and thus the alignment of many of its members with the Popular Front is meaningful. So far, however, the Popular Front has been unable to win the entire Radical-Socialist party, which continues to be dominated by Edouard Herriot. Herriot, who is a member of the Laval cabinet, has managed to keep the party behind the cabinet, but he has had a struggle to keep it from falling into the hands of the Popular Front. His chief antagonist in the party is Edouard Daladier, premier prior to the February riots. Daladier has grown more radical since 1934. He is working diligently on behalf of the Popular Front, and if he can ever displace Herriot, he is likely to emerge in the future as premier

at the head of a Popular Front cabinet.

Pierre Laval treads warily between these two angry camps—the Croix de Feu and the Popular Front—and tries to keep both of them pacified. But how long he can continue to run with the hare and hunt with the hounds is a question. The radicals charge that his sympathies are too much with the conservatives. The conservatives complain that his policies are not conservative enough. Since he is trying to please all parties, the accusations are not without foundation. Premier Laval is conservatively inclined but he is mindful of the necessity of liberal support. If he should lose the following of the Radical-Socialist party (held for him by Herriot) his cabinet will crumble into immediate ruins.

Laval's Policy

The Laval cabinet has been trying to overcome the depression by policies which go far to please the conservatives and which, at the same time, are not too offensive to the liberals. These policies involve balancing the budget through rigid economies, such as reductions in the pensions, salaries, and other government benefits enjoyed by millions of Frenchmen, and through higher taxation. It is a policy of deflation, of keeping France moored to the gold standard, and of economizing at every turn. It has been necessary, however, to take some direct action to relieve the nation from the effects of depression. There is a program of public works to stimulate employment; there is a plan of government loans to stricken industries and financial assistance is given to the farmers. These measures have been enacted by cabinet decree, a power which Laval wrung



PIERRE LAVAL

from the Chamber of Deputies in June and which expired at the end of October. The Popular Front charges that the cost of depression is being paid by the little man and that the wealthier portion of the population is escaping many of the burdens it should rightfully bear. It accuses Laval of being an accomplice of the Croix de Feu and a tool of the Bank of France. A competent French journalist recently published a sensational article in which he analyzed the structure of the Bank of France and showed how it was in a position to influence the government. The bank, which issues the nation's currency, lends the government money, and which, briefly, acts as the nation's central banking institution, is a private organization. Theoretically, there is a degree of governmental control through the governor of the bank who is appointed by the government, but actually control is in the hands of 12 regents who represent the 200 largest stockholders. These regents are the most important financial and industrial leaders in France. Some of them own large private banking houses of their own. The 12 of them are members of the boards of directors of 95 companies, including banks, insurance companies, navigation, armament, and warehouse enterprises, met-

allurgical, electrical, mining, and chemical companies. The Bank of France is at the pyramid of French finance and industry. Its regents influence nearly all the large fortunes, to say nothing of their own powerful interests. There is Baron de Rothschild, of the House of Rothschild, who has his own private bank. There is François de Wendel, armaments magnate and also

—Excelisior
FRANÇOIS DE LA
ROCQUE

a member of the Chamber of Deputies. There are other names which mean nothing in this country but which are important in France and are known to all the people.

The Popular Front makes the charge that last year the Bank of France tried to force Premier Flandin to adopt its policies, calling for large cuts in the incomes of civil servants and pensioners, financial help to business companies in distress and other similar measures. Flandin refused to sponsor such a program. Whereupon the Bank of France, declares the Popular Front, produced a financial crisis by refusing to lend the government money. Eventually Flandin fell and Laval was given the powers demanded by the Bank of France.

Popular Front Program

If these charges are true, however, Premier Laval has not gone as far as the regents of the Bank of France would like to have him go. He has, to be sure, adopted a policy of deflation. He has instituted salary and pension cuts. But he has also tried to help the farmer and the small businessman, and these efforts have preserved for him the support of many liberals who fear that the Popular Front would become too radical. The Popular Front demands the disarmament and dissolution of armed fascist societies. It calls for the curbing of the Bank of France's power, and wants other banks, as well as trusts and large fortunes, controlled. It seeks a large program of public works, a 40-hour week and an end to the policy of deflation. And it looks forward to the socialization of key industries and to the establishment of a supreme economic council to direct the economic life of the nation.

Such is the political situation in France as the Chamber of Deputies meets. It is considered likely that Premier Laval will be able to remain in power for a while yet, perhaps until after the national elections in May. He still has the Radical Socialist party behind him and, unless there should be a sudden increase in the strength of the Popular Front, he should be able to command a majority. However, it is hazardous to predict anything in French politics.

There is always the possibility that the conservatives, fearing the growing strength of the Popular Front, will support the Croix de Feu in an attempt to take control by force. If this happens, the Popular Front will fight back and France will not become fascist without a struggle. The Popular Front expects to win enough support in the May elections to place it in power. If it should gain this power, Daladier is considered the most likely leader. And if this happens, Colonel de la Rocque has promised "sport" to his followers. Thus, France, whatever direction she takes, is walking in dangerous ways.



RIOTING IN PARIS

France has been the scene of many disturbances in recent years. Fresh troubles are feared.

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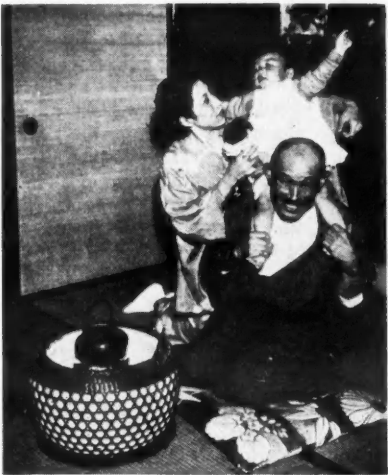
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AROUND THE WORLD

China: The troubled relations between China and Japan (see *THE AMERICAN OBSERVER*, November 11) were further strained by the murder of a Japanese marine in Shanghai. The marine, according to Japanese officials, was killed by a Chinese, and on the strength of this "incident" a Japanese marine battalion marched into the city. Immediately the Chinese began to flee the native districts in large numbers, to seek refuge in the quarters under foreign protection. Many observers believe that the murder will be used



© Wide World
A JAPANESE COMMANDER IN AN INFORMAL MOMENT
Commander Sankichi Takahashi, commander of the Japanese navy, pictured with his grandchild and daughter at his home in Tokyo.

by the Japanese to extract fresh concessions from the Chinese government.

The Chinese government recently made an announcement that had been expected for some time. China went off the "silver standard," and from now on her money will be backed not by silver bullion, but by the credit of the government.

China was forced to take this step because of her immense losses of silver to the United States, which has been buying silver at an artificially high price. Since Congress passed the silver purchase act, we have been flooded by silver from other countries. Our government has bought in two years a total of 500,000,000 ounces (as much as the world produces in 20 years). Most of it came from the Orient, where silver has served for centuries as the basis of currency.

When silver was shipped out of China in large quantities, the price of this metal went up in that country. Consequently, it took less silver to buy a given amount of Chinese farm and manufactured products than before—in other words, prices of these products went down. Silver became more valuable in relation to other goods. Chinese farmers and business concerns, therefore, were badly hurt because they could not get good prices for their products. Thus, China has been witnessing a severe depression, with wholesale bankruptcies and unemployment.

The effects of our silver policy on China's economic life came as a surprise to a number of leaders in this country who had advocated the silver purchase act. Professor Raymond Moley, for instance, supported the act because he thought that raising the price of silver would enable the Chinese to use their silver stores to buy more American goods. Instead, its first effect was to drive down Chinese prices and to hurt business in that country. Certain American groups are now working for the repeal of the act, although it is still defended by many people on the ground that it benefits our own silver-mining industry.

Italy: Last week Sir Eric Drummond, the British ambassador to Rome, had a long private talk with Benito Mussolini. It was the first time since the League voted to impose sanctions against Italy that the British have had any official relations with the Italians. Hitherto the British had insisted that officially the whole Ethiopian dispute should be handled by the League of Nations, and not by any of the member powers, although for some time they have engaged in "unofficial" discussions with Mussolini.

Sir Eric's interview with Il Duce concerned the British fleet in the Mediterranean. Last month Mussolini agreed to withdraw some of his troops from Libya, where they might menace British interests, if the British would agree to reduce their Mediterranean fleet. In that way it was hoped that the tension between the two countries might be eased. Last week Mussolini told Sir Eric that he had carried out his part of the bargain, but that the British had failed to fulfill theirs. Sir Eric replied that Italy's armies in Libya were still "far in excess of normal," and that for the time being Great Britain would be unable to recall any of her ships. In other words, the bargain has not been a success. As soon as that news was made public in Rome, there were violent street demonstrations against Great Britain, and Italo-British relations became seriously strained.

Ethiopia: Without firing a shot, General Emilio de Bono's armies marched into the ancient Ethiopian stronghold of Makale and pushed on toward the south. At the same time General Rodolfo Graziani, who began his offensive from the southern end of the Ethiopian empire, moved ahead. Quietly and gradually, meeting little resistance from the Ethiopians, the two great Italian columns are closing in.

At present the Italians are busy building roads and guarding their lines of communication. Food and supplies must be ready for the troops at all times, and as the advance continues that task grows more difficult, since the supply trains have to run through enemy country.

Germany: German housewives still line up in front of grocery and butcher shops, for Germany's present food-shortage seems destined to continue as long as the Nazis retain their policy of cutting down imports from other countries.

Already a serious division of opinion on this policy has begun to develop. While

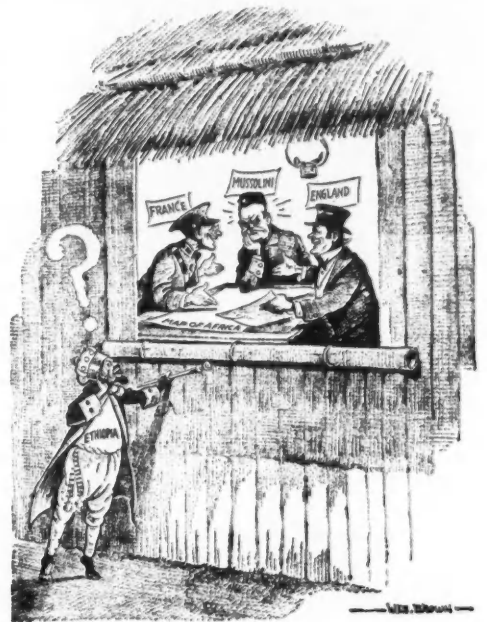
Germany's censorship laws prevent any open discussion of public matters in the press, observers report that the distance is widening between the "right," or conservative, wing of the National Socialists and the radical party leaders.

Dr. Hjalmar Schacht, Germany's "economics minister," is the acknowledged leader of the right wing. His original formula for German prosperity was as follows: repudiate foreign debts, use the money to subsidize German industries manufacturing goods for export, and stimulate employment by giving German steel and munitions factories the benefit of an extensive rearmament program. After that, private business would be able to take up the burden of supplying jobs to the people.

The radicals, represented by Dr. Goebbels and General Goering, have been enthusiastic about this program. But now Dr. Schacht has turned against his original plan, or at least he feels that it has gone far enough. He has said that the government is borrowing too much money, and that the expenditures for armaments will have to be slowed down. Otherwise, Dr. Schacht fears, Germany will be forced into bankruptcy, which would mean printing worthless money. The conservatives also believe that unless money is now turned away from munitions industries to the purchase of goods from other countries, the present food shortage may grow more acute than it already is.

Here the radicals part company with Dr. Schacht. Last week General Goering announced: "The iron National Socialist will bend matter. We will not capitulate before a mere shortage of butter or a small matter of too few pigs." And Dr. Goebbels added: "We are making history, not butter." Realm-leader Hitler has thus far been able to play one group off against the other, but some observers think that the complaints of German housewives about the meat and butter shortage will incline him toward Dr. Schacht's view.

The Philippines: Last Friday the Philippine Islands took their first official step toward independence from the United States. On that day, the new Commonwealth government was inaugurated. On the surface, not many changes have been



NOT IN ON THE DEAL

—Brown in Akron Beacon Journal

made. Under the new constitution, the Philippine legislature is changed from a two-house into a one-house body, and the chief executive authority, formerly vested in an appointed American governor-general, is transferred to an elected Filipino president. The United States, however, will be represented by a high commissioner.

Nevertheless, the Filipinos have actually embarked on a substantial measure of self-government. Although the Philippine president and legislature will not have full control over such matters as the currency, foreign treaties and tariffs and national defense, they will have a free hand in conducting other government affairs. They will face little interference from the United States unless, as is very unlikely, domestic affairs reach a critical state and the American high commissioner recommends military intervention.

Russia: Travelers in the Soviet Union find that a new name has been added to the list of national heroes, that small group of Russians who have made notable contributions to the "building of socialism." It is that of Alexei Stakhanoff, a coal miner from the town of Donbas, and founder of "Stakhanoffism."

Stakhanoffism is known in the United States as specialization, the practice of finding the one job for which a worker is best suited, and then setting him at that job to the exclusion of everything else. Stakhanoff himself increased his output of coal twentyfold by confining his labor to cutting, while others in his mine crew carried the coal away and kept wooden supports against the vein. He was so impressed by this achievement that he began a campaign to popularize his idea. Other workers followed—shoemakers, mechanics, farmers, and factory employees. They became Stakhanoffites. And when the government recently celebrated the eighteenth anniversary of the Bolshevik revolution, Stakhanoff was an honored guest.

Some workers, however, oppose Stakhanoff's idea because they fear it will mean more labor. A number of his followers have been attacked by their fellow employees, but the government protects them. One district engineer has already faced the firing squad because he was found guilty of trying to undermine confidence in the Stakhanoff movement.



COUNTING NOSES IN TURKEY

A government worker in Istanbul checks up on the size of a family during a recent one-day census.



© Harris & Ewing

"CHINA CLIPPER" STAMPS

The inauguration of transpacific air service is an event in the lives of stamp collectors, thousands of whom are sending letters on the first flight to obtain the precious cancellations. Here are Secretary of Commerce Roper and Postmaster General Farley looking over the special stamps.

The President

The President used his Armistice Day address, delivered in Arlington Cemetery, as the occasion to redefine the policies of his administration toward world peace. "The primary purpose of this nation," he said, "is to avoid being drawn into war. It seeks also in every practicable way to promote peace and to discourage war. . . . That is why we, too, have striven with great consistency to approve steps to remove the causes of war and to disapprove steps taken by others to commit acts of aggression. We have either led or performed our full part in every important attempt to limit and to reduce armaments. We have sought by definite act and solemn commitment to establish the United States as a good neighbor among nations. We are acting to simplify definitions and facts by calling war 'War' when armed invasion and a resulting killing of human beings take place."

The tone of the presidential address was not optimistic. He pointed realistically to the numerous threats to peace which are present on all hands today. "I would not be frank with you," he declared, "if I did not tell you that the dangers that confront the future of mankind as a whole are greater to the world and therefore to us than the dangers which confront the people of the United States by and in themselves alone." In Mr. Roosevelt's opinion, the most serious threat of all is that "international confidence in the sacredness of international contracts is on the wane."

The President also took this occasion to comment on the dangers of war fever to which a generation which has never known the horrors of war might succumb. He said:

The memory of our hopes of 1917 and 1918 dies with the death of those of us who took part. It is, therefore, your sacred obligation and mine, by conscious effort, to pass that memory on to succeeding generations. A new generation, even in its cradle or still unborn, is coming to the fore. The children in our schools, the young men and women passing through our colleges into productive life have, unlike us, no direct knowledge of the meaning of war. They are not immune to the glamour of war, to the opportunities to escape the drabness and worry of hard times at home in the glory and heroism of the arms factory and the battlefield. Fortunately, there is evidence on every hand that the youth of America, as a whole, is not trapped by that delusion. They know that elation and prosperity which may come from a new war must lead—for those who survive it—to economic and social collapse more sweeping than any we have experienced in the past.

Trade with Canada

Another important matter brought up by the President in his address last week dealt with the results of his conversations with Premier W. L. MacKenzie King of Canada during the latter's recent visit to Washington. Mr. Roosevelt revealed that the two chief executives had discussed the broadest possible trade agreement between the two nations:

It is fitting that on this Armistice Day I am

privileged to tell you that between us and a great neighbor another act cementing our historic friendship has been agreed upon and is being consummated. Between Canada and the United States exists a neighborliness, a genuine friendship, which over a century has dispelled every passing rift. Each has much to gain by increased employment by means of enlarged trade, one with the other.

The Canadian prime minister and I, after thoughtful discussion of our national problems, have reached a definite agreement which will eliminate disagreements and unreasonable restrictions, and thus work to the advantage both of Canada and the United States.

What the nature of this trade agreement was and how effective it will be in reviving commerce between the two nations—commerce which has dropped a third since 1929—the President did not make clear. Next to Great Britain, Canada is America's best customer and buys more than 50 per cent more from us than we buy from her. How the trade agreement between President Roosevelt and Prime Minister King will affect Canada's relations with other members of the British Empire is a matter about which there has been considerable speculation. At present Canada, like other members of the empire, enjoys certain privileges in the British markets where her goods enter either duty free or at a lower rate of duty than those of nations outside the Commonwealth of Nations. In return, Canada grants concessions to British goods. If the new agreement between this country and Canada accords privileges to American manufactured products, it is possible that Great Britain

James A. Farley could point out, on the basis of the election returns, that had President Roosevelt been running this year, he would have carried his home state by almost half a million votes. To this, the Republicans were able to reply that last year Governor Lehman, a Democrat, carried the state by 808,000 votes, and that this plurality was more than cut in half at the recent election.

Another election which commanded national interest was held in Kentucky. A. B. Chandler, a Democrat and an ardent supporter of the President, won a smashing victory over his Republican opponent for governor. In itself, the victory was not regarded as remarkable, since Kentucky is normally a Democratic state. But Chandler suffered the handicap of a split in his party's ranks, led by the present governor, Ruby Laffoon, who openly supported the Republican candidate. Commentators see in the Kentucky election a decisive victory for the New Deal. They believe that Kentucky's normal Democratic majority would have been more than offset by the effect of Governor Laffoon's bolt had there been a strong popular trend against the administration.

The Democrats were unsuccessful in Philadelphia, however, where they tried to capture the city government, long a Republican stronghold. Leaders of the party had hoped to make progress there this year, as the election of last year gave them gains in the congressional delegation. Their failure to win in Phila-

delphia has not dashed their hopes of carrying the state next November, for their candidate polled the biggest vote of any Democrat since the time when, 52 years ago, Philadelphia last elected a Democratic mayor.

In addition to these major battles, the land was dotted with minor municipal contests. Many bond issues were voted down in Ohio local elections. Republican critics claimed that most of these proposals were linked with the administration's work-relief projects, and saw in their defeat a rebuff to the President. All in all, the elections showed no decisive trend in one direction or the other, and the country must wait for next year to determine the popularity of the Roosevelt administration.

On November 22 the Pan-American hydroplane *China Clipper* will roar upward on her four motors from the placid waters of San Francisco Bay, to inaugurate the first transpacific air service between this country and Asia. The *China Clipper's* maiden trip is the result of several years of planning and preparation. The 7,400-mile flight to Manila will be broken by four stops; at Honolulu, at Midway and Wake Islands—where special airports have been prepared for her reception at the lagoons on which she will land—and at Guam. Pan-American officials have discussed the project with air technicians and with business men since 1931. Colonel Charles A. Lindbergh, who flew the Atlantic in 1927, was prominent at many conferences. This year a 19-ton ship, the *S-42*, made test flights over the contemplated route. No accidents occurred, but it was decided that this type of plane was not large enough to carry reserve fuel for so long a journey. So the 25-ton *China Clipper* was designed, small colonies of Americans established on the almost microscopic coral atolls of Midway and Wake Islands to build airports and provide facilities for overnight stops in case of bad weather, and the harbor of the American naval station at Guam was made ready to receive aerial visitors.

Fuel and provisions will be maintained at four breaks in the journey. Each airport will provide radio weather signals for the plane, so that she can either avoid storms or make for the nearest airport until they pass.

Although the new plane will fly only to Manila on her first trip, the regular service will extend to China, cutting the present transpacific steamship time of 28 days to 60 flying hours. The *China Clipper* is, of course, a magnificent plane. She is 89 feet six inches long, 24 feet high, and cruises at 157 miles an hour. But plans even now are being made to construct planes twice as large. They will be even more dependable on the Pacific route than the *China Clipper*. Plans are also under way to inaugurate a transatlantic service. When these two lines are in operation, it will be possible to fly around the world in 10 days.

Secretary of State Cordell Hull prepared a radio speech last week in which he clarified the administration's attitude toward the neutrality legislation passed by the last session of Congress. Mr. Hull severely criticized the neutrality law and pointed out that "the imposition of an arms embargo is not a complete panacea. We should not concentrate entirely on means for remaining neutral and lose sight of other constructive measures of avoiding involvement in wars between other countries."

The secretary, long an advocate of closer international cooperation, insisted that it was to this country's interest not to sit by and complacently watch war develop "when, by use of our influence, we might prevent or lessen the scourge of war." He said that in addition to the trade in arms, munitions, and implements of war—which are forbidden by the neutrality law—there are many other factors which might involve us in a European war. He intimated that the resolution adopted by Congress did not go far enough and left the President's hands tied, preventing him from taking action to cooperate with the League, or to bring pressure upon one side or the other.

This latest statement is in line with the attitude which the administration has had all along on the subject of neutrality. When the neutrality measure was being debated in Congress, the President and the Department of State attempted to persuade Congress to modify it in certain respects, principally to give the President power to discriminate between an aggressor nation and the victim of aggression. Moreover, the administration insisted that the terms used in the congressional resolution, "arms, munitions, and implements of war," were not broad enough and that the President should be permitted to draw up his own list of commodities upon which he might declare an export embargo.

It is understood that the latest move in the war crisis on the part of the American government was due to the fact that the neutrality legislation, as it now stands, is not succeeding in stopping trade with the warring nations. Despite the President's warnings to American businessmen, trade with Italy in certain commodities which are vitally essential to her campaign against Ethiopia has increased rapidly during the last few weeks. It is reported, for example, that exports of American oil to Italy have increased greatly. It is



A NEW TRADE AGREEMENT WITH CANADA

Canadian Prime Minister William MacKenzie King discusses details of the new treaty with Secretary of State Hull.

© Harris & Ewing

will reply by revoking the preferences which she now accords to Canadian products.

Political Trends

Although few states have elections in odd-numbered years, the results of the scattered elections that are held are closely scrutinized by politicians, who hope to determine thereby the direction of political winds in advance of the national elections. The few elections which were held in 1931, for example, forecast the defeat of President Hoover in 1932, in spite of his enormous majority in the 1928 presidential election. The results of this year's elections have caused the Republicans to take a new lease on life, for President Roosevelt's home state, New York, elected a state assembly composed of 68 Democrats and 82 Republicans, to replace the one which had 76 Democrats, 73 Republicans, and two vacancies.

The victory of the Republicans in the New York Assembly did not, however, greatly disturb the Democrats. Democratic leaders point out that because of the way in which New York's Assembly is districted, about 400,000 more votes were cast for Democratic assemblymen than for Republicans, despite the victory which the Republicans won. Upstate rural New York is more heavily represented in the state's legislature, in proportion to its population, than is the metropolitan area. Postmaster General

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Pacific Pioneers

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States

Thinking

possible that the President will seek to modify the present law in order that he may deal more effectively with the new situation which has developed since Congress adjourned.

Shorter Week Tried

The Kellogg Company of Battle Creek, Michigan, a pioneer in the field of improving working conditions in its plant, has recently taken a step which may have important effects elsewhere in American industry. The president of the Kellogg Company announced that the 36-hour day, 36-hour week would be made a permanent policy of the company and that wages would be increased 12½ per cent, raising the minimum scale from \$4 to \$4.50 a day. With the bonuses which are distributed to employees, the minimum pay rate of factory workers is more than \$30 a week. The company's workers are now receiving as much as their weekly pay envelopes as in 1930, and they are working fewer hours.

The president of the Kellogg Company, in announcing this plan, declared that he was convinced that the best way to end the depression lay in paying higher wages for fewer hours of work. He estimated that the new plan will increase employment at the Battle Creek plant by 20 per cent. "It isn't just a theory with us," he explained. "We have proved it by five years' actual experience. We have found that with the shorter working day, the efficiency and morale of our employees are so increased, the accident and sickness rates are improved, and the unit cost of production is so lowered that we can afford to pay as much for six hours' work as we formerly paid for eight."

The Kellogg Company believes the plan should be applied on a national scale. "We are going to have to come to something like this," the president declared. "From 1900 to 1930, when our company made the change, production increased six times as fast as population. We shall never solve our unemployment problem by 'made work,' by the dole, appeals to patriotism, and other methods that have been tried and found wanting. Nor would it do any good to divide up the available jobs without maintaining the total purchasing power."

Moves Toward Economy

During the last session of Congress a House committee on expenditures in the executive departments of the government, by a secret vote, authorized an inquiry into ways and means of cutting down governmental costs. A few days ago, heads of important government departments were mildly surprised to receive a letter from Representative John J. Cochran, chairman of this committee. In his letter, Chairman Cochran asked the department heads for information on how the government could be reorganized to reduce expenditures, how economies could be made, and overlapping activities eliminated without interfering service.

The Cochran letter came at a time when President Roosevelt was considering how large a budget he would submit to the next session of Congress. Certain recent developments indicate that the President, in his new budget, will cut expenses to the minimum. Whether Congress will follow his recommendations is another matter, for in the past it has frequently disregarded the president's wishes and increased appropriations beyond the estimates in the budget. The Cochran letter is interpreted as an attempt to prevent this sort of thing, at least in the executive branches of the government.

The question of government spending is certain to be raised when Congress reassembles in January. Various organizations, notably the National Economy League and chambers of commerce, have been at work trying to bring about a reduction in governmental expenses. They have created quite a stir about balancing the federal budget and they have received support from business leaders in general



WHO WON THE WAR?

—Talbot in Washington News



AND HE'S NOT LOOKING "AROUND A CORNER."

—Harper in Birmingham Age-Herald



ALWAYS THE LAST ONE UP

—Fitzpatrick in St. Louis Post-Dispatch

who, most of them at least, strongly disapprove of the government's spending in excess of its income. Whether the average voter thinks that the time has come when the government may safely abandon its large-scale emergency spending is, however, still a disputed matter.

Legislating by Treaty?

Last week, officials of what is left of the NRA raised a neat point of constitutional law, which, they suggested, might enable the government to revive the NRA without its being overruled by the Supreme Court. While Congress does not have the power, according to the Schechter decision of last May, to regulate industry in such a way as provided by the National Recovery Act, the same regulation might be effected by use of the treaty-making power of the government. The United States might, for example, agree with a foreign country to limit hours of work to 40 a week, or in some other way to regulate industry, and sign a treaty pledging itself to carry out these conditions. The treaty would have to be approved by two thirds of the members of the Senate and the President.

Such a treaty, it is held, would be constitutional, for treaties are said to be equally as binding upon the government as is the Constitution itself. The Constitution places treaties in a favored position, for a paragraph in Article VI states: "This Constitution, and the laws of the United States which shall be made in pursuance thereof, and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every state shall be bound thereby, anything

in the Constitution or laws of any state to the contrary notwithstanding."

It is admitted that the treaty-making power is extremely vast, and that, in the past, it has enabled the government to perform acts which Congress could not perform without violating its constitutional authority. As a matter of fact, the Supreme Court has never declared a treaty unconstitutional, and many responsible authorities on constitutional law doubt that a treaty could be declared unconstitutional because, together with the Constitution itself, "all treaties made, or which shall be made, . . . shall be the supreme law of the land." Other authorities question such inclusive treaty-making powers and believe that the President and the Senate have no authority to make treaties which, by their very terms, violate provisions of the Constitution.

A Reply to Hearst

The recent statement by William Randolph Hearst that he might leave his native state of California because of its high taxes has drawn fire from the California Chamber of Commerce. It would seem that Mr. Hearst, by his protest against high taxes, has not increased his popularity with Californians, whose profitable tourist business is an important factor in the state's economic life. In a recent editorial, *The New Republic* makes this comment on the Hearst case:

Mr. Hearst announced his intention of quitting California because of its new state income tax, which amounts to a quarter of the federal income tax, and was imposed in order to provide funds for relief. It appears, however, that it is too early for Californians to exchange felicitations. Mr.

Hearst is legally a resident of New York, and the California authorities point out that a resident of another state, no matter how much time he spends in that golden commonwealth, is taxed only on that part of his income derived from sources within California, and that he has to pay this tax wherever he lives. The California Chamber of Commerce, directly challenging Mr. Hearst, declares that the state's community property law permitting division of income between husband and wife, makes possible a greater reduction in all taxes, and that if Mr. Hearst moves to Florida—Florida always seems to crop up in California discussions—his taxes would be much heavier. It is worth noting that the movie industry, which has associated itself with Mr. Hearst in his threats to leave the state, is now making large additions to its fixed plant. If the movie kings are not merely bluffing, they may find these steel and concrete studios difficult to take with them when they start eastward.

Price of Depression

Measured in terms of dollars and cents, the depression has cost American business more than \$26,000,000,000, it was revealed last week by the Department of Commerce. The figures made public show that since the collapse of business six years ago, business and industry have been obliged to draw on their savings and surpluses to that amount in order to meet their expenses of operation. The figure is attained by deducting from the total expenses the value of goods and services which American industry has produced. Even last year, when business conditions were much improved, losses amounting to more than a billion dollars were registered, for the value of all goods and services produced was \$48,500,000,000, whereas the total amount which business paid out in expenses was \$50,100,000,000.

New Deal Victories

The United States Supreme Court, after a two-week recess, convened last Monday to consider cases involving the constitutionality of major parts of the New Deal. While, on the opening day, it did not hand down any direct decision on the legality of administration measures, it did give three important orders which mark a victory for the New Deal. In the first instance, it refused to pass upon the constitutionality of processing taxes under the AAA as it was amended by the last session of Congress. It held that the company which brought suit against the government must await the decision of a lower court before the Supreme Court will hand down its verdict on the measure. This latest move has been interpreted as an indication that the whole AAA will be reviewed and acted upon at the same time.

The second victory involved the Guffey coal act, which President Roosevelt urged Congress to adopt, however reasonable its doubts might be as to the law's constitutionality. The case in question is now before the Supreme Court of the District of Columbia, and the coal company attempted to get a ruling from the federal Supreme Court before the District court had acted. This the federal tribunal refused to do. The government won a third victory when the Court ruled that the Department of Justice could plead in a case involving the constitutionality of the Bankhead cotton act. The cotton shipper who is bringing suit tried to keep the government from appearing in the case, but Chief Justice Hughes refused the request.



TO CARRY WATER OVER CALIFORNIA DESERT SANDS

This huge conduit is part of the vast Colorado River aqueduct system. It forms 55 miles of the 242-mile main line of the aqueduct, which will bring water from the Colorado River to Los Angeles County, California.

© Wide World

Historical Backgrounds

By David S. Muzzey and Paul D. Miller

Jeffersonian Democracy and Industrialism

FEW men in American history have had the opportunity to shape the economic destiny of an entire people that Thomas Jefferson had when he was raised to the presidency in 1800. And few men in our history have had a more definite philosophy of what that pattern should be than Jefferson. He knew what he wanted to make of America. His political opponents, the Federalists, had been repudiated by the electors, and their system was unpopular among the majority of the people. Numerically, the

Jeffersonians were stronger. In ability they were at least equal to the Federalists. The election which swept Jefferson into power is often referred to as the "revolution of 1800;" and it might well have been precisely that had Thomas Jefferson seen fit to build a society in this



DAVID S. MUZZEY

country along the economic lines which he so forcefully outlined in public and private utterances.

Two facts about the Jeffersonian system should be constantly borne in mind as one studies the history of his administration. The first fact is that Jefferson stood for political democracy. He wanted the government to be of the people, by the people, and for the people. Government was not something apart from the people and above the people. Hamilton's elite or well-born were not to be the politically ruling class. The political side of Jefferson's basic philosophy is so frequently emphasized that one is likely to overlook the other side. As strongly as he believed in government by the people, political democracy, he believed in economic democracy, or independence to earn one's own living from the ownership of property and the means of production. On this second fact we need not dwell, as we discussed it in some detail on this page last week. It was a fundamental part of Jeffersonian democracy.

Why Jefferson Failed

Just why the Jeffersonian dream of economic freedom, coupled with political democracy, failed of realization is something which has not been made clear by history. If the philosophy had been successfully carried out, the so-called "revolution of 1800" would have been a revolution in actual fact, for it would have transformed the entire character of American life. It would have reversed the economic processes of the early period of our history and would have prevented the realization of the Hamiltonian dream of great aggregations of capital and the concentration of industrial control. It would have meant not only the political democracy which has characterized the American system of government, but also the economic independence to a majority of the people which vanished with the rise of industrialism. The implications of the Jeffersonian system were at least partially realized at the time, for the very thought of the Virginia radical in the presidency sent shudders down the spines of the manufacturing, financial, and commercial interests; of conservatives in general.

Once in power, Jefferson did little to insure the economic independence which he so dearly cherished and which he held so essential to the development of his American system. On the political side, it is true, his program was executed as carefully and as fully as could have been desired by his most ardent partisan. All the outward forms of democratic government were established and maintained. But Jefferson failed to guarantee the development of an economic system in which nearly all the people would own property and be able to earn their livelihood from their ownership. As a matter of fact, certain of his policies tended

to work against that very system. The embargo act, passed during the latter part of his administration, worked, in certain respects, against the interests of the class he represented and in favor of the opposing economic system. By cutting off trade with Europe, it was the farmers who received the heaviest blow, for their products lay rotting in the warehouses and at the wharves. Few American manufactures were at the time being exported to Europe, and the embargo on imports stimulated American business and gave a decided impetus to the development of the factory system.

Nor did Jefferson's followers reverse the Federalist tradition on the tariff. While it was argued that the tariff could be used to protect the American market for agricultural products, it is nevertheless a fact that manufacturing industries received the benefits and the industrialism which Jefferson deplored flourished as a result of the tariff. In certain sections of the country, it is true, Jeffersonian democracy was realized in both its political and economic aspects. Property was widely distributed in the newly opened states of the West, where there was economic independence coupled with political freedom.

Mixture of Systems

All during the Jeffersonian administration, however, and during the years that followed, the Hamiltonian system was becoming more solidly entrenched. Factories spread out beyond the eastern seacoast into Ohio and Indiana. Between the time of Jackson and the outbreak of the Civil War, American manufactures were increasing by as much as 95 per cent in a single decade. At the same time, the population of the large cities was increasing at an unprecedented rate. A new class was developing, the workers who had completely lost the economic independence which came from the ownership of property. According to Herbert Agar in his "Land of the Free," what was happening to America during and following the Jeffersonian period was:

Two movements were coming to a head in the United States at the same time. The first was the triumph of political democracy; the second was the triumph of private enterprise over private property, the triumph of centralizing finance-capitalism over the older American conception of a society in which most men had some property and no men had gross accumulations of it. In other words, we were preparing a hideous combination of the Jeffersonian and Hamiltonian plans. Hamilton had offered us an economic oligarchy and a political oligarchy to go with it. Now we were preparing to take Hamilton's economic oligarchy and marry it to Jefferson's political democracy, producing a combination that nobody had ever even pretended would be good.

This dual system has been accentuated throughout the later years of American history. Political democracy has been extended to practically the entire population. Economic democracy has almost completely perished, making not only the workers propertyless but also depriving the middle class of its opportunity to earn a living through the ownership of property. Today more than three-fourths of the middle class is propertyless and depends upon salaries for its subsistence. This trend is one of the outstanding facts of American history, and its force and implications will be seen time and again as we pass from period to period in our study of American history. Naturally there is considerable disagreement over whether this trend is a desirable one or not. Some contend that it is the inevitable consequence of the industrial revolution and that it should be accepted as such. But there are others, like Mr. Agar, who believe that a society based on a wider distribution of property can be constructed.



ABANDONED

From a photograph by John Muller. The illustration on this page are from "U. S. Camera—1935."

Among the New Books

Family Chronicle

"Hands," by Charles G. Norris. (New York: Farrar and Rinehart. \$2.50.)

HERE is the story of the Bakers, three generations of them, carried from the days before the Klondike Gold Rush down to the stock market crash of 1929. Into a family chronicle Charles Norris has skillfully woven the great forces that have shaped American history in the last 50 years. Michael Baker is a day laborer, working with his hands to provide a humble home for his family. Martin, his son, fights in the Spanish-American War, prospects for gold in the Klondike, and builds up a great fortune. And his son, Miles Baker, reared in luxury, is beginning his career as an architect when the '29 crash sweeps everything away. Like his grandfather, young Miles turns to labor with his hands.

The story of the Bakers is told in rich detail, against the background of a changing America. In the end a sobered Michael says: "I don't know how it is going to be done, but you must create a social order where a man can earn his livelihood by the sweat of his brow or by the skill of his hands and can get all the work he wants to do whenever he wants it." But Charles Norris rarely preaches, he is content to let his story tell itself.

Financial Giants

"The Lords of Creation," by Frederick Lewis Allen. (New York: Harpers. \$3.)

A FEW years ago, Mr. Allen wrote an extremely popular book which held a high place on the nonfiction best-seller lists for many months. It was called "Only Yesterday" and dealt with the life, customs, fads, thoughts, social and economic

conditions of the 1920's. In it, perhaps better than anywhere else, the story of the famous twenties, down to the stock market crash, was told wittily and effectively. "Only Yesterday" is looked upon as the standard guidebook to the "roaring twenties."

In his latest book, Mr. Allen has undertaken a heavier task. His "The Lords of Creation" is an attempt to tell the story of the great concentration of wealth and capital which has taken place in this country since 1900. He might have gone back further than 1900, for the giant corporation and the master financier are not products of the twentieth century. But the earlier part of the story has been told rather effectively many times before, and Mr. Allen has done well to concentrate his attention on the three decades preceding the famous crash of 1929.

This is a book which everyone ought to read, for Mr. Allen has done an excellent piece of work in telling about the financial wizards who play such an important part in the economic life of our country, about the devices which they have used to gain control, and of the effect of this great concentration of power in a few hands. It is not the author's purpose to unloose an emotional blast against those with whom he is dealing, but rather to tell calmly and scholarly exactly what happened during those years.

Photography

"U. S. Camera—1935," edited by T. J. Maloney. (New York: William Morrow and Company. \$2.75.)

IN THIS issue of THE AMERICAN OBSERVER, three of the photographs which appear in "Camera" are reproduced. The volume is the first of a series of outstanding photographs which will appear annually. It is an excellent job that has been done, too, for the pictures are well selected and most of them are exquisite products of the modern camera. There is a wide range of subject matter represented in the volume. It would be difficult to find a better collection of photographs. The leading professional and amateur camera artists are represented.

Photography is becoming increasingly important in the lives of many people, both as an art and as a hobby. The remarkable development of the camera has made possible the taking of pictures which go beyond the mere reproduction stage. The photographer has the opportunity to put enough creative effort into his picture taking to give his work a definite artistic quality. It is one of the most satisfying of hobbies.

"U. S. Camera—1935" bears this out. It contains pictures which are as striking and moving as paintings, pictures in which the hand of the artist can easily be seen. This collection will delight camera lovers and will surprise those who are inclined to look upon photography with disdain.



U. S. S. INDIANAPOLIS

From a photograph by Russell Atkins



Is science a Frankenstein? Have our scientists and inventors built a mechanical monster that society cannot control? Do machines create unemployment?

THESE three imaginary students will meet each week on this page to talk things over. The same characters will continue from week to week. We believe that readers of THE AMERICAN OBSERVER will find it interesting to follow these discussions week by week and thus to become acquainted with the three characters. Needless to say, the views expressed on this page are not to be taken as the opinions of the editors of THE AMERICAN OBSERVER.

Mary: Did either of you happen to hear about the recent discussion between two scientists on the subject. "Is Science a Frankenstein?"

John: I didn't; what was it about?

Mary: Well, you know, of course, that Frankenstein was the German count who constructed an artificial man monster whom he couldn't control. The Smithsonian Institution in Washington asked two well-known scientists whether they thought that modern inventors were like Frankenstein. Here is what the Institution was getting at: Scientists work busily in their laboratories, never knowing what use will be made of their discoveries. Almost

all inventions, or a good many, at least, carry possibilities of good and evil alike. For example, a scientist may discover a gas to exterminate vermin, a gas which may also be used to kill off thousands of men, women, and children during a war. Consequently, many people wonder if science, like the ambitious Frankenstein, has raised a monster who will turn on his creator and the rest of the world and destroy them.

John: I can't say this is the happiest topic of conversation in which we might engage, but it does intrigue me. What did the two scientists reply to the question asked them by the Smithsonian Institution?

Mary: They admitted that science has made possible the terrifying armies of modern times, but they defended their profession by saying that it is also working to remove the causes of war. One of the scientists, Sir James Jeans, pointed out that most wars result from "the pressure of population and the hunt for food." Every year, he said, scientists find some new way of increasing the productivity of the soil, enabling larger numbers of people to live comfortably on limited areas of land. Sir James expressed the opinion that scientific discoveries will in time produce a superabundance of food and drink for the world's population and thus remove one of the chief causes of war.

John: That sounds very reasonable to me. I also believe that when people come to realize how destructive modern scientific warfare can really be, they will rise up and outlaw it as a means of settling foreign quarrels.

Mary: What do you think about all this, Charles? You have been strangely reticent today. Are you ill or something?

Charles: I was just waiting until you came to that part of the discussion in which the scientists brought up the question of labor-saving machinery and its contributions to human happiness. I feel more at home in discussing that subject.

John: I'll bet the two scientists didn't take the position you usually take on this question, Charles; that is, that machinery throws more people out of work than it creates jobs for. They couldn't take this position and still do scientific research with any enthusiasm.

Charles: Don't jump at conclusions, John. As a matter of fact, one of these scientists takes exactly the same stand that I do. I am referring to none other than Sir Frederick Hopkins, president of England's foremost scientific group, the Royal Society. He and I, if I may say so in all modesty, are in perfect harmony. You're right, of course, in saying that he does not blame machines for unemployment. Neither do I. Both Sir Frederick and I place the blame for the present widespread unemployment on economic systems which were planned before the machine age and which have not been properly adjusted to modern conditions. I agree wholeheartedly with him when he says that it is only with the help of machines that mankind has been able to satisfy its needs without back-breaking labor. And he agrees with me that if the advantages of the machine were unselfishly passed on to all the people, the existing large-scale poverty could be abolished and a new age of plenty would be possible for all.

Mary: Well, John, I guess we're in the presence of a genius. Any day, now, I expect to pick up the papers and read the headlines, "Sir Frederick and Sir Charles in Perfect Accord."

Charles: Foolishness aside, I do believe that unless our nation, and others, make their economic systems conform with scientific changes, the world is in for a bad time. I consider this one of the most serious problems of our time.

John: There have been pessimists of your variety in every generation. Every time a new labor-saving device has been put on the market, near-sighted people have feared that it would throw men out of work and lead to widespread unemployment. It is true that there have been temporary periods of large-scale unemployment, but after each of these periods the country has come back stronger than ever. In fact, Charles, one of your radical economists, Stuart Chase, estimates that the material well-being of the American people has increased twofold in the 100 years from 1830 to 1930. Does this not prove that over a long period of years, our economic system has adjusted itself rather well to scientific developments?

Charles: I have never denied that our country as a whole has made great progress in the last century and a half. So much mechanical and scientific progress has been made during this time that we, as a nation, are able to produce an abundance of food and goods for everybody in the land. My complaint is that despite our great scientific progress, millions of men and women and children live in abject poverty; that we have failed to make full use of the instruments of science; that we have allowed machines to remain idle or to operate only on a part-time schedule when, as a matter of fact, people have greatly needed what these machines could produce by operating full time. The reason for this state of affairs is that social progress has lagged

far behind the mechanical. We have not yet learned how to plan socially.

John: It seems to me that we have learned fairly well how to make good use of the products of science. Our industrial leaders have taken inventions in their crude forms and have developed, perfected, and marketed them. By making use of these inventions, they have been able to cheapen their products, thus enabling the masses of people to buy a greater quantity of these products.

Charles: Instead of letting powerful industrialists handle the problem as in the past, I think their present power should be drastically curbed. They have shown themselves to be selfish and unwise in their ownership and operation of machines. They can produce goods plentifully, but they are not willing to pay high enough wages so that the mass of people can buy what could be produced. They install machines not for the purpose of easing the burden of their workers, but instead for the purpose of laying off workers and thus reducing their wage bills. They never make the fullest use of their machines because it is not profitable for them to do so. Owners of industry will not produce any more than they can make a profit on, regardless of how much people may be in need of their products. You may say this is only good sense, but I think it is up to the owners of business and industry to pay high enough wages to enable people to buy all that mechanized factories and farms can produce. If private owners cannot or will not do this, then the government should own and operate the machines for the benefit of all the people.

Mary: I think, Charles, that you entirely overestimate the wisdom of government. After all, government is composed of human beings, selfish and unselfish, just as private industry is. I honestly do not believe that government could have solved the problems created by machines any better than private industry has. I am convinced that science will eventually prove to be man's greatest benefactor, instead of a Frankenstein. And I think that private industry, with a certain amount of government regulation and assistance, will be able to adapt our economic system to the changes science has brought about.

John: You're far more sane, Mary, than Charles is. He will not give private industry credit for anything. Charles is wrong in saying that the benefits of the machine have not been passed on to the mass of people. The nation's workers get considerably higher wages and toil considerably fewer hours than they did 100 years ago.

Charles: Yes, about 10,000,000 of them don't have a chance to toil at all.



—From New Outlook
SCIENCE LOOKS AHEAD



THE FUTURE?

Courtesy of "An American Place."

THOUGHTS AND SMILES

According to a leading psychologist, the average person seems unable to "find himself." Has the average person thought to look in a hole?
—Washington Post

What's the technique in dealing with a potato bootlegger? Do you drive quietly up a side lane and ask for Ezry?
—Detroit News

Even a politician can't run indefinitely without changing oil.
—St. Louis Post-Dispatch

Drifting is merely a cowardly mode of choice.
—John Dewey

Persistent study of the photograph of Haile Selassie Gugsu, the Ethiopian chief who deserted to the Italians, strengthens the belief that he was hired by the Ethiopian government to do so.
—New York Times

As we understand the big-shot critics, what they want is a true Jeffersonian Democrat who isn't too much like Jefferson.
—Cedar Rapids Gazette

The fundamental things in politics inhere in human nature, and cast hardly more than their shadows on constitutions.
—Woodrow Wilson

A Swiss doctor has discovered a drug which he believes will cure stubborn and wrong-headed persons, but who, then, would take the other side on all our arguments?
—Boston Herald

A report is out that Mr. Hoover "entertains hopes." Well, he isn't the kind of man who is discourteous enough to kick a hope out of the door.
—Toledo Blade

In Germany they have evolved a suit of pajamas made of wood. It seems a very drastic solution of the crumbs-in-the-bed problem.
—Atlanta Constitution

Mr. Morgenthau promises a paper dollar of entirely new design. Our suggestion that one be engraved on adhesive tape has been entirely ignored.
—Toronto Star

This year's winner of the Nobel peace prize will be the fellow who discovers some way to keep the diplomats apart.
—JUDGE

SOMETHING TO THINK ABOUT

1. Do you agree with Judge Coleman's reasoning in declaring the holding-company act unconstitutional? How, in the opinion of the Baltimore court, does the act deprive persons of property "without due process of law"?

2. In your opinion, do the advantages of the holding-company system outweigh its disadvantages?

3. Why are the economic policies of the Laval government supported by French conservatives and opposed by French liberals and radicals?

4. In what respects does the French Croix de Feu resemble the Hitler organization before it was elevated to power in Germany?

5. What does Herbert Agar mean by this statement: "Now we were preparing to take Hamilton's economic oligarchy and marry it to Jefferson's political democracy, producing a combination that nobody had ever even pretended would be good"?

6. Do you agree with Secretary Hull that the President should have greater power than he has been given under the neutrality resolution?

7. In your judgment, has humanity as a whole benefited or been injured by scientific invention?

REFERENCES: (a) The Holding Company Bill: A Debate. *Forum*, May, 1935, pp. 259-265. (b) Congress Considers the Proposal to Abolish Utility Holding Companies. *Congressional Digest*, May, 1935, pp. 133-158. (c) Power and the Public. *Harpers*, June, 1935, pp. 36-47. (d) The People's Front in France. *The New Republic*, October 9, 1935, pp. 235-237. (e) The Decline and Fall of French Fascism. *The Nation*, October 2, 1935, pp. 380-381. (f) The Bank of France under Fire. *Current History*, November, 1935, pp. 139-146.

PRONUNCIATIONS: Hjalmar Schacht (hyal'mahr shahkt'), Stakhanoff (stahk'hahn-off—o as in or), Goebbels (gu'bels—u as in burn), Goering (gu'ring—u as in burn), Croix de feu (krwah' duh fu'—u as in burn), Francois de la Rocque (frahn-swah duh lah rok'—u as in burn, o as in or), Herriot (ay'reeo—o as in go), Daladier (da-la-dee-ay), Emilio de Bono (ay-mee'leo day' bo'no—o as in go), Rodolfo Graziani (ro-dol'fo graht-see-a'nee—o as in go), Makale (mock'a-lee).

Holding Company Law Declared Illegal in Baltimore Decision

(Concluded from page 1, column 1)

thrown overboard, and the government will proceed to enforce it as if the decision had not been rendered. Following the decision, Chairman James M. Landis of the Securities and Exchange Commission said: "The normal course of procedure will continue. The decision was merely that of one district court, of which there are more than 70." At the same time, Mr. Landis warned holding companies to comply with the act or be ready to face prosecution by the SEC, which is in charge of enforcing certain sections of the law. No one will know definitely whether the holding-company act is illegal until the Supreme Court of the United States has had its say, for it often happens that district courts hand down adverse decisions on acts of Congress, only to find themselves reversed later by the highest court of the land, and the law in question declared constitutional. Nevertheless, members of the administration are considerably upset about the Baltimore decision, fearing it may forecast similar action by the Supreme Court when the law eventually comes before that body for a final decision as to its constitutionality.

Purpose of Holding Companies

In order to understand the constitutional issues raised in the holding-company act, it is necessary to review briefly the nature of holding companies, the purpose of the law enacted by Congress, and the supposed authority, under the Constitution, by which Congress acted in passing the law. Let us consider first the nature of holding companies and their functions.

In the public utility field—the gas and electric and other industries—as well as in many other industries, there are two types of companies. There are the companies which engage in the manufacture and sale of electricity and gas. These are known as operating companies, for they are engaged directly in the business of generating electricity and distributing it to homes and businesses—factories, mills, mines, office buildings, and the like. There are thousands of operating companies, some of them serving only small communities and others covering several states. The operating companies whose activities are confined to a single state are regulated by the public utility commission of that particular state, which determines such things as rates to be charged, and similar matters. Those operating companies which cross state lines, which distribute and sell electricity in interstate commerce, are regulated by the federal government, for the

Constitution gives Congress the power to regulate commerce among the various states of the Union.

Pyramiding

While certain provisions of the public utility act of 1935 affect the operating companies, the most important feature of the bill deals with another type of corporation in the utility field, the holding company. Now, a holding company differs from an operating company in that it does not manufacture and sell electricity. As the name implies, a holding company "holds"—owns or controls—other companies. It controls the policies of operating companies outright, for in order to do that, it would have to own all the stock of the operating companies. But it owns enough of the stock to dictate policies and to control the activities of operating companies. Oftentimes, a holding company controls entire chains of utility companies which operate in a large number of states. Again, a holding company may be owned by another holding company, and the second company owned by a third, and the third by a fourth, and so on, until a gigantic superstructure of holding companies is imposed on the industry, with one small holding company at the top of the pyramid controlling an enormous network of companies worth hundreds of millions of dollars.

We cannot here devote much space to the holding-company device, to the process of pyramiding until a top holding company owns or controls chains of utilities extending across the whole nation, and even into foreign countries. It is sufficient to point out that, by the investment of a relatively small sum of money, a few individuals are able, by means of the holding company, to control utility properties worth hundreds of times the amount of their investment. It is no exaggeration to say that the holding companies have for many years dominated the electric power industry of the United States.

The holding-company system has been defended on the ground that it promotes efficiency in the public utility field which would be impossible if all the operating companies acted independently. By controlling the small units, the holding companies have been able to give them the advantage of new patents, the purchase of supplies at lower costs, and to lower their costs of operation and thus provide the public with more efficient service at lower costs. Moreover, the huge sums of money which the holding companies have at their disposal or are able to raise enable operating companies to expand and to develop regions which could not otherwise be provided with electricity. The need to secure the broadest extension of the service and the lowest rates, declare defenders of the system, can best be met by the holding company which, "by effecting a consolidation and interconnection of many small electric plants, can bring about better service and lower rates than these same plants can when each is owned and operated independently."

Abuses Arise

Few of those who have fought against holding companies would charge that the holding company, in itself, is a bad thing. But they insist that it is a device which permits all sorts

of abuse. They point out that frequently it is used to prevent regulation by the state governments. Perhaps the strongest charge against the holding company is that it exists solely for the purpose of making profits and that, as a result, the operating companies are "milked" of their income in order to feather the nests of those who sit at the top of the pyramided structure. The operating companies are thus forced to charge higher rates to their consumers than they would have to charge if they were not controlled by the holding company. Finally, it is argued, the holding company enables a few individuals to wield such economic power that it is difficult for the state to get at them. Many strong holding companies are in a position to defy both the state and the national governments. They are known to have exerted considerable pressure upon the press, the schools, and, as the lobbying investigation last summer showed, over the houses of Congress.

It was due to the abuses and to many revealed fraudulent practices that agitation arose for the federal government to step in and regulate the holding company with an iron hand. While the "death sentence" was not imposed, the wings of the holding company were greatly clipped. The law provides that holding companies shall be allowed to control only a single integrated public utility system, thus preventing the building of utility empires of hundreds of small units. The Securities and Exchange Commission is given considerable authority in deciding which holding companies shall be allowed to remain in business and which ones shall be abolished. Thus it can approve holding-company control of more than one system if it finds that the independent units cannot operate independently "without the loss of substantial economies not otherwise obtainable." The SEC is given great leeway in permitting legitimate and honest business by the holding companies and also in curtailing those companies whose operations are held to be unnecessary and even wasteful. The law provides that all holding companies shall register with the SEC by December 1, and that those which fail to meet certain requirements by 1938 shall be dissolved. The SEC is to be especially diligent in preventing the sale of bonds and stock of holding companies which are not based on sound assets, and the law provides that the SEC shall keep an eagle eye on companies which sell such securities to the investing public.

Reasons for Decision

In handing down his decision declaring the act unconstitutional, Judge Coleman said that Congress had no right under the commerce clause of the Constitution to clamp such restrictions upon holding companies. He stated that many of the holding companies do not act in interstate commerce at all and hence are not subject to regulation by the federal government. Nor could their activities be said directly to affect interstate commerce, which might make the act constitutional. "The act aims to regulate virtually everything that such companies do," he said, "intrastate as well as interstate. All of the companies before the court are embraced within the act's provision, although none of them does any interstate business, or is engaged in any intrastate business that directly affects or burdens interstate commerce."

In the second place, Judge Coleman held that Congress had acted in violation of the fifth amendment to the Constitution when it passed the holding-company bill. He claims that holding companies are deprived of property without "due process of law" by the act and that such a thing is unconstitutional. "Many of the act's provisions," he declared, "are grossly arbitrary, unreasonable and capricious, because of the penalties which they impose for the non-registration with the Securities and Ex-



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change Commission; the restraints placed upon the issuance and acquisition of securities, etc.; the regulations and prohibitions with respect to service, sales and construction contracts; the taking over of virtually the entire management of the affairs of the companies embraced by the act; and the elimination or simplification of holding-company systems."

Postal Authority

Thirdly, the Baltimore judge charged, Congress exceeded its authority under the postal power which the Constitution confers upon it, since the law denies the use of the mails to concerns which fail to comply with the provisions of the act, "regardless of whether any particular use of the mails or any particular thing mailed is in fact of such character as reasonably to warrant exclusion. That is, the exclusion bears no relation necessarily to the use itself, but to the user, of the mails."

In other ways, the decision implied, Congress may have exceeded its constitutional authority when it passed the holding-company law. "The question whether Congress, by the act," Judge Coleman declared, "has also unlawfully delegated to the Securities and Exchange Commission, without establishing adequate and intelligent standards to guide and assist it, the legislative power to determine when and to what persons and corporations the act shall apply, has not been considered by the Court because unnecessary in view of the other grounds upon which the Court rests its decision."

It will be the purpose of the Supreme Court, when it gives a ruling on this issue, to determine whether, in its opinion, Congress did exceed its authority when it enacted this law; whether the activities of the holding companies do in fact have some direct effect upon interstate commerce and are thus subject to federal regulation; whether holding companies are deprived of property "without due process of law" as prohibited by the Constitution; whether, by denying use of the mails to persons who fail to comply with the act's provisions, Congress has exceeded its constitutional power.

What the attitude of the Supreme Court will be, no one can know in advance. Like nearly every other important act of the New Deal, basic constitutional issues are involved and strong arguments are mustered on both sides. Although not essential to the New Deal as a whole, the public utility act is regarded as highly important by the Roosevelt administration. The President is personally interested in accomplishing the sort of reform which the act permits, as seen by the fact that he waged such a determined battle to secure its enactment by Congress, and it is no secret that an adverse ruling by the Supreme Court would be considered a major setback to his program of economic reform.



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